BEFORE THE

VIRGIN ISLANDS PUBLIC SERVICES COMMISSION

DOCKETS NO. 678 & 289

PETITION OF VIRGIN ISLANDS WATER AND POWER AUTHORITY

FOR EMERGENCY & PERMANENT BASE RATE INCREASE

FOR THE ELECTRIC SYSTEM ELECTRIC SYSTEM &

ADJUSTMENT IN THE LEAC RATE

STATUS REPORT OF

GEORGETOWN CONSULTING GROUP, INC.

FOR THE OCTOBER 3, 2019 PSC MEETING

September 25, 2019

PSC Staff Status Report
Virgin Islands Water and Power Authority
Electric System Emergency & Permanent Base Rate Relief &
Adjustment in the LEAC Rate
September 25, 2019

Introduction

This report has been prepared to provide a status report for the on-going Base Rate case (Docket 678) and the continuing LEAC rate proceeding (Docket 289) for Commission review and consideration in their deliberations during their meeting scheduled for October 3, 2019. This report combines both Dockets 678 & 289 because, as we understand it, WAPA's is seeking simultaneous actions in both dockets.

Procedurally, WAPA's actions appear unorthodox and do not appear to be fully transparent. There may be good reason for that as will be discussed later given the unfortunate circumstances that WAPA has placed itself in. In the past, WAPA has often chided the Commission for not adhering to WAPA's interpretation of proper administrative protocol and procedure. However, in this case WAPA had not formally filed a petition or modification to their original petitions in both Dockets 678 & 289 to request Commission review and approval of the relief we that understand they are seeking. Rather, WAPA has developed their current proposal and sought review and support from avenues outside the normal regulatory process. An official amended petition combining actions was finally filed with the Commission on August 5, 2019.

Added to this is the fact that WAPA's generation and delivery systems have been particularly unstable in the recent weeks and months after new Wartsila generating units have been belatedly brought on line with promises of increased reliability and lower fuel costs on St Thomas, and temporary Aggreko units have been brought on line in St. Croix with the same promises. Neither the savings nor the reliability have been delivered as promised. WAPA has recognized that certain technical issues are currently beyond their capabilities and has now requested and is receiving assistance from the New York Power Authority to determine the root causes of and solutions to the current operating problems. Meanwhile frequent and lengthy outages continue.

While we have indicated that this Report and the upcoming PSC meeting deals with Dockets 678 & 289, both WAPA initiated dockets, we also understand from the PSC Executive Director and Counsel that the Commission has directed in its public comments at recent meetings that the PSC must concurrently complete the base rate investigation mandated by the Virgin Islands Code that by statute requires occurring no less than once every 5-years. We note that efforts to initiate the required rate investigations were commenced by the Commission in 2014, only a year after the conclusion of the prior rate case, which WAPA delayed actually filing for nearly a year, and that after four different petitions, Docket 651 was finally withdrawn with only the "Interim" relief made permanent. Consequently, the statutorily mandated rate investigation is now overdue and that review will occur concurrently, to the extent possible, with Docket 678.

Summarized below are our comments, review and analysis relevant to the above. We would observe that not much has changed from the last time the Commission convened – perhaps other than the increased unreliability of WAPA's generation and delivery systems. We will summarize relevant facts from the proceeding from past reports to provide relevant information in one document.

Background for Docket 678

Petition for Permanent Base Rate Relief for the Electric System

On May 17, 2019, the Virgin Islands Water and Power Authority ("WAPA") submitted a petition to the Virgin Islands Public Service Commission ("PSC or Commission") for Electric System rate relief for changes in base rates to be applied on all bills rendered on or after July 1, 2019. A Request for Expedited Action (Emergency) with supporting testimony and documents was filed requesting an adjustment to base rates to provide an additional $55.1 million in revenue to meet cost of operations, meet certain capital requirements and provide for debt service coverage for WAPA's outstanding bonds and other liabilities.

Primary reasons cited by WAPA for the request included:

- WAPA is in serious financial difficulty, which WAPA alleges are due in part to inadequate base rates which have not changed since 2016.[1]
- Significant damage to the VI from Hurricanes Irma and Maria, which WAPA alleges has resulted in a decline of 18% in customer kWh sales since the hurricanes.[2]
- Despite significant efforts by WAPA to control costs, current rates are alleged to be inadequate.
    - WAPA asserts that it is following an "Austerity budget" adopted by its Board representing a reduction of $15.5 million in the operating budget

[1] WAPA received an "Interim Rate Increase" in January 2017. Although the Commission found that WAPA had not met the pre-conditions, WAPA implemented the rate increase and sued the PSC; that suit remains pending. In July 2017 the PSC made that Interim Rate increase permanent.

[2] It appears that attributing the loss in sales primarily to Hurricanes Irma and Maria may be inaccurate. Beginning with WAPA's filing in the 2012 at the beginning of Docket 612, the following figures reported for WAPA's electric sales:

Year/Event	Reported Sales (MWhs)	Percentage Change (from 2012 - cumulative)
FY2012	723,918	N/A
FY2013	680,541	6% loss of sales
FY2017 (pre-Storms)	641,263	11.4 % loss of sales
FY2018 (post-Storms)	541,490	25.2% loss of sales
FY2019 (current LEAC filing)	498,276	31.1% loss of sales

WAPA's sales have been trending down for at least seven years, and even the 2012 numbers are lower than those used in 2003 (Docket 532).

- Reduction of staff positions by 17.5% and lower personnel costs by 18.3%, which translates into $5million per year.

- For the test year, current base rates are calculated to only provide a .67 Debt Service Coverage of Senior and Subordinate bonds. WAPA's bond covenants have a combined minimum requirement of 1.25x DSCR. WAPA states it has Total Debt Service Coverage of .32, which is below the minimum requirement of 1.0x.

In its petition for an increase in base rates, WAPA has requested the following:

- Seeking an increase in base rates to generate an additional $55 million per year in revenue. WAPA's FY 2020 Projections indicate a shortfall of $43.2 million to meet operation expenses and debt service, plus need for an additional $11.9 million for short term capital investments. To achieve the additional $55M/yr., WAPA would require an increase of **25.4%** on its existing base rate revenues.
- The proposed increase in rates results in coverages that are as follows:
  - Senior and Subordinate DSC 2.45
  - Total DSC 1.19
- Debt service amount increases from $60.1 million in 2018 to $73.6 million in 2022. Exclusive of significant additional potential paydown of liabilities that WAPA has created and addressed later herein.
- WAPA has also proposed a Stand-by Rate, the calculation of which is provided as Exhibit WAPA-PRMG-3a. which is on the agenda for the October 3, 2019 PSC Meeting, along with an anticipated filing for a Roof-Top Solar ("Net-Billing") Tariff filed, on September 23, 2019.

- If WAPA's May 2019 base rate requests were granted (and the LEAC rate remained unchanged), the impact on customer bills would be as follows:
  - Residential bills overall would increase approximately 24%;
  - Commercial bills would see an overall increase of 28%; and
  - Large Power Users would see an overall increase of 24-26%.

Based upon projected kilowatt hour sales, the average cost per kWh equates to almost 49 cents, including LEAC rate revenues. PSC Staff is currently in the process of analyzing this filing and working with the assigned Administrative Law Judge to determine a schedule for hearing the Base Rate Case.

Emergency Rate Request Submitted

PSC Staff and WAPA have been engaged in trying to work out a schedule with the assistance of the appointed Hearing Examiner for an "Emergency" base rate increase since July 2019. WAPA initially proposed a schedule that brought the matter to a Commission decision by August 31, 2019 but during this discussion, WAPA informed PSC Staff that it had received a notice of default letter from its propane supplier VITOL, and need action more quickly, potentially as early as July 31, 2019.

WAPA requested a Commission decision to approve their “proposal” at the July 31, 2019 PSC Meeting, but made no filing consistent with such request, and the Commission took no action. On August 5, GCG received copies of an amended filing which WAPA stated that it will again ask the Commission for Emergency base rate relief during the October 3, 2019 PSC Meeting.

As will be discussed below the Emergency base rate request implies the termination and withdrawal of the original request made in docket 678, however, no such withdrawal or termination has been made formally.

The demands made by VITOL in its Default Notice to continue supplying propane are substantial:

- Immediate payment of $20 million towards accrued infrastructure costs (which we are informed has occurred, with the payment to WAPA by the VI Government of all overdue government bills);
- $2.6M – Monthly Infrastructure payments to repay $160M in infrastructure costs;
- $670,000 in Monthly O&M costs ($8M/yr. in O&M costs);
- $1.5M - An additional monthly payment beginning August 2019, to reduce arrears which are alleged to be approximately $76M;
- $1M per month in increased payment (to $2.5M) beginning in January 2020 addressing the accrued arrearage;
- All propane deliveries to be pre-paid until all arrears and interest are paid in full.

Since the last PSC meeting, we understand that WAPA has made the initial $20 million payment as well as the initial additional infrastructure payment. There is no certainty that all the additional payments demanded by VITOL have been or can be made.

WAPA’s Emergency Rate Request alleges that losing Vitol propane would drive the cost of fuel up by an additional 13.2 ¢/kWh. This is, of course, a fluid situation and the outcomes are not certain. WAPA’s actions in undertaking many aspects of the VITOL contract unilaterally has not been transparent or prudent. The Commission insisted on information that has not been forthcoming regarding the prudence of the decisions of the Board of Directors and the executive management team that negotiated and implemented the contract. In the prior PSC Meetings, the Commission asked for the results of a VITOL audit, which WAPA had a right to undertake. WAPA has only recently initiated the necessary audit. The scope of the audit, which in our opinion is all important, has not been disclosed to the Commission, and could fall short of the standards for a contract and construction management audit of the Vitol project. This deficiency is a glaring omission. We understand that the audit is currently being worked on.

Based upon a presentation recently shared with PSC Staff WAPA has suggested an amended base rate "proposal" that reduces the initial request. [3] WAPA has made an emergency rate filing that incorporates the following We understand the current proposal by WAPA to include:

- Reduce the rate increase to remove base rate funded capital items of $13.8M.[4] This reduces the May 2019 rate request to $41.3M and the adjusted starting point for the requested increase to 7.67 ¢/kWh from approximately 10.5 ¢/kWh.
- WAPA then makes several voluntary adjustments to reduce the amount of the requested increase. In summary the adjustments, which have been accepted at face value for discussion purposes, are as follows:[5]
    - Reduce Major Maintenance[6] (1.71 ¢/kWh)
    - Wartsila (fund via fuel tax)[7] (0.22 ¢/kWh)
    - 2003A Refunding (AMBAC)[8] (0.38 ¢/kWh)
    - Senior Debt Adjustment[9] (0.68 ¢/kWh)
    - Reserve ($5 million)[10] 1.00 ¢/kWh
    - Net Proposed Reduction (2.00 ¢/kWh)
    - Adjusted Base Rate Request 5.68 ¢/kWh
    - Lease costs removed when base rates are implemented[11] (3.08 ¢/kWh)
    - WAPA proposed decrease in LEAC (no deferred fuel)[12] (2.57 ¢/kWh)
    - Net Increase in total Rates 0.03 ¢/kWh

This proposal would result in rates at an average of 42.97 cent/kwh, while the current rate average is 43.94 cents per kwh – a 0.03 ¢/kWh differential or essentially the same rate. WAPA's presentation emphasizes that under this scenario rates would remain essentially the same as the current rates in place. Our analysis of this situation is provided later in this report. In addition to the proposal for current rates (base rate increase and LEAC rate decrease) WAPA also proposes a rate path that teases a significant rate reduction over the next 18 months to December 2020 as follows:

1. On July 1, 2019 (passed already) increase base rates: 3.08 ¢/kWh
2. On July 31, 2019 decrease LEAC: (2.57) ¢/kWh
3. At this point overall rates are approximately equal to the current rate.
4. December 31, 2019 reduce base rates from proposed VITOL refinance: (1.79)¢/kWh

[3] We are unaware if this is a binding proposal offered by WAPA as it an unorthodox approach.
[4] No discussion on the impact of such a proposal.
[5] These adjustments have not been subjected to any due diligence analysis by the PSC staff.
[6] Given the circumstances of WAPA's current operations, no assumptions can be made as to what maintenance will be omitted or how; no narrative explanation has been provided.
[7] No narrative explanation.
[8] No narrative explanation.
[9] No narrative explanation.
[10] No narrative explanation.
[11] Existing Commission requirement.
[12] No supporting narrative or computations

5. Decrease LEAC from more efficient operation from addition of new units: (5.31) ¢/kWh
6. Decrease base rates from removal of APR lease surcharge: (1.99) ¢/kWh
7. Net decrease in overall rates from current: (9.09) ¢/kWh
8. Approximate overall rate: 33.54 ¢/kWh

Analysis of WAPA's Proposal

We believe that there is a significant lack of transparency regarding the proposal made by WAPA that has caused a significant amount of confusion to residences, businesses and government officials:

1. The underlying basis of WAPA's proposed LEAC rate "decrease" is simply a delay of the deferred fuel balance that WAPA will seek to be collected in rates at a later time. WAPA's LEAC rate currently being billed is 19.26 ¢/kWh. In the LEAC rate petition filed by WAPA for the July 1, 2019 through December 31, 2019 period the requested LEAC rate was 23.51 ¢/kWh. For the proposed WAPA rate plan the LEAC will be reduced to 16.69 ¢/kWh. With current fuel prices and generation WAPA simply cannot achieve this level of LEAC. It is a plug figure proposed to achieve a desired end result, that being no increase in total rates, i.e. base rate plus LEAC rate. Under the reconciliation feature of the LEAC rates the Deferred Fuel amounts will have to be billed back to customers eventually. This is not a customer savings.
2. The "savings" from the VITOL refinance of 1.79 ¢/kWh is the most misleading of all the components. We have been provided with the backup calculations used by WAPA to derive the figure. We have been asked to respect the confidentiality of major assumptions and we will. The calculation is grossly inaccurate for at least the following reasons:
    a. The capital value assumed to be refinanced, and then paid for by consumers, is significantly in excess of the $87 million in capital value currently approved by the Commission.
    b. The Commission initiated a base rate charge of approximately $2.48 million monthly approximately 2.5 to 3-years ago based on a capital value of $87 million amortized over 5-years. At this point consumers have already paid over 50% of the payment schedule. WAPA's proposal not only requires consumers to start from scratch, but to pay more than the original capital!
    c. The "refinance" used to lower rates is largely accomplished by extending the payment period of the refinance. As mentioned, the original VITOL agreement was based on $87 million for 5-year payout. It was then amended to $150 million (and later $160 million) over 10-years.[13] While extending the amortization period by an additional 5-years results in the monthly and annual payments to VITOL remaining approximately the same, the actual cost to consumers doubles. Similarly, the refinance assumes an even larger capital payment to VITOL with a long amortization of say 20-years. This gets the annual payment lower – reflected by WAPA as a consumer "savings." This is the equivalent of refinancing one's

[13] Neither the first nor second amendment to the Vitol Agreement, with these massive increases in costs, have been approved by the PSC for recovery in rates.

home mortgage for a larger amount over a longer period. The resulting monthly payment will be lower, but the total cost will have increased. WAPA's future rates would then contain this cost element not for a short-term period but for a long-term, increasing future rates. This is the kind of "savings" that consumers do not need!

3. The fuel savings from new efficient units on both Islands could possibly happen, but there is no certainty as to when such savings will occur. To date implementation of new additional units have been chronically late; in the case of new generation financed through HUD Community Development Block Grants, WAPA's proposed purchases have not been authorized for procurement due to HUD procurement process rules and concerns with WAPA's ability to manage the funds effectively. When sufficient generating capacity of new units are reliably implemented the lease payments for the APR units will be removed resulting in additional consumer savings.
4. The amounts petitioned for in the original base rate case have long since been superseded by WAPA's Emergency request.[14] The original base rate petition should be amended or withdrawn.
5. WAPA's analysis does not address in a holistic way how WAPA can extinguish the significant $1.2 Billion of debt and liabilities that it has accrued. Through the analysis presented by WAPA, most of these debts and liabilities are not addressed.[15] Indeed, at first glance it appears that many of the accrued debts and liabilities are not addressed in the Emergency filing whatsoever. Many of the debts accrued, similar to the VITOL situation, are for amounts for which rates have been provided in the past and revenues collected from

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[14] WAPA's base rate request, if implemented, would have resulted in an overall rate of approximately 49 ¢/kWh. There is no assurance, and we believe it to be unlikely, that the rate requested would be implemented. The amount is staggeringly high – between four-and five-times mainland rates, and by far the highest in the Caribbean. WAPA appears to have led government officials to believe that the 49 ¢/kWh rate would already have been implemented. Rather, if the reductions from the rate requested to the rate requested on an emergency basis are rational and prudent, those reductions should have been done prior to the filing of the original petition.

[15] See for example the non-response provided in the recent request for information:

1. Please provide a narrative of how WAPA anticipates that it can meet its outstanding obligations that were presented to the Commission (approximately $1.2 Billion) when there is effectively no change in charge per kilowatt hour requested by WAPA in the emergency proceeding? Areas of concern include meeting the following cash requirements:
   1.1. Vitol arrearages and new demands for payment (amounts shown in the Notice of Default.)
   1.2. Obligations to Glencore for past due fuel balances
   1.3. Obligations to Trafigura for past due fuel balances
   1.4. Cash requirements for any unforeseen emergency

   Response: The Authority anticipates meeting the indicated outstanding obligations by operating more efficiently and effectively, by implementing and adjusting austerity measures as necessary and by implementing a Transformation Plan that includes maximizing available federal grant and loan funding from FEMA, HUD and other federal program to 1) fund and phase in higher efficiency, smaller generating units; 2) fund key mitigation projects that will harden the Authority's electric and Water Systems to allow for faster recovery in the future storms and to make the Authority more reliable and resilient; and 3) increase the amount of renewables (solar, wind, etc.) on the grid. Additionally, the Authority intends to work with the Public Services Commission to approve new and adjusted rates and surcharges timely so that the Authority will have the necessary resources to fund its operational costs and to restructure the Authority's existing debt to maximize savings.

consumers, but never used for the purposes provided. This is a significant issue where current and past WAPA Boards of Directors and executive management have not been transparent, ignored the directives of the Commission and have not been accountable. It now appears that the only way in which these issues will be addressed is to bill consumers twice for the same expense already collected in past rates. The Commission will be the institution looked upon to provide these rates.

Background on LEAC Filing – Docket 289

- On April 10, 2019, WAPA submitted a petition to the PSC for an Electric LEAC rate for the period July 1 through December 31, 2019 to be applied on all bills rendered on or after July 1, 2019. For the July 1- December 31, 2019 period, WAPA petitioned the Commission to increase the current LEAC rate of 19.26 ¢/kWh to 23.51¢/kWh for the proposed period, an increase in the LEAC rate of 22.1%.
- Impact on total bills to the various customer groups range from 9.5% to 10.9% with Residential customers receiving the largest percentage increases.
- The filing protocols (referred to as the "Minimum Filing Requirements") for WAPA's LEAC petition are governed by a Stipulation between WAPA and PSC Staff that was approved by the Commission. This protocol required that this petition should have been filed on April 1, 2019. No explanation offered for the delay.
- PSC Staff filed discovery on WAPA for the purpose of clarifying certain aspects of the May 2019 filing and requesting additional information relevant to the rate petition. Discovery was filed on May 1, 2019.
- Partial discovery responses were provided on May 26, 2019. A conference call was held with WAPA on Friday June 7, 2019 for the purpose of reviewing the responses provided to date, to elicit clarification of the information filed and to determine when Staff could expect to receive responses to outstanding discovery requests.

At the June 2019 Meeting of the Commission we recommended that due to the incomplete and unavailability of data relevant to this petition no Commission action is recommended. We point out that compared to the current LEAC rate of 19.26 ¢/kWh or the petitioned increase to 23.51 ¢/kWh, the Emergency rate proposal covering both base rates and LEAC rate the proposed LEAC rate is proposed to be 16.69 ¢/kWh. As stated, before this does not result in a reduction of the LEAC expenses, but rather a deferral of cost collection to be later paid by consumers following reconciliation of the deferred fuel balance.[16]

Conclusions

This information has been presented to provide the Commission background on the matter of WAPA's request to have its base and LEAC rates adjusted.

We do not believe there is reasonable justification to make the rate changes requested by WAPA nor have the proposed transactions as proposed by WAPA (for example the VITOL refinance)

[16] Another case of lack of transparency.

appear to be prudent.as laid out by WAPA and presented above. There is simply insufficient information for this Commission to conclude that the costs presented were reasonably and prudently incurred, or that the revenues requested will appropriately address the WAPA's situation.